

Message Text

UNCLASSIFIED

PAGE 01 NEW DE 06355 131121Z

62

ACTION NEA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 L-02 PA-02 PRS-01 SS-15

NSC-05 /090 W

----- 116462

R 130755Z MAY 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 8642

UNCLAS NEW DELHI 6355

E.O. 11652: N/A

TAGS: EFIN, IN

SUBJECT: RESERVE BANK OF INDIA'S CREDIT POLICY FOR 1975

SLACK SEASON (MAY THROUGH OCTOBER)

FOLG SENT ACTION NEW DELHI INFO CALCUTTA AND MADRAS FROM
BOMBAY MAY 12 REPEATED TO YOU.

QTE

UNCLAS BOMBAY 1126

E. O. 11652: N/A

TAGS: EFIN, IN

SUBJ: RESERVE BANK OF INDIA'S CREDIT POLICY FOR 1975 SLACK

SEASON (MAY THROUGH OCTOBER)

REF: BOMBAY 2600, NOVEMBER 1, 1974

1. SUMMARY: THE RESERVE BANK OF INDIA'S CREDIT POLICY FOR
THE SLACK SEASON (MAY THROUGH OCTOBER) OF 1975, ANNOUNCED
MAY 8, STATES THAT INFLATIONARY POTENTIAL IN THE ECONOMY,
DESPITE SOME IMPROVEMENT, IS STILL VERY HIGH, AND THEREFORE
CONTROL OF INFLATION WILL CONTINUE TO BE THE BASIC OBJECTIVE.
NEVERTHELESS, NO CREDIT CONTRACTION IS CALLED FOR DURING THE
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 NEW DE 06355 131121Z

SLACK SEASON, BUT BANKS ARE ENCOURAGED TO EXPAND CREDIT

WITHIN THEIR OWN AVAILABLE RESOURCES AND THE GENERAL FRAMEWORK OF THE CREDIT POLICY. BANKS HAVE ALSO BEEN ENCOURAGED TO INCREASE THEIR TERM LENDING ACTIVITIES FOR ASSISTING PRODUCTION AND EXPORTS.

2. FOLLOWING A MEETING WITH CHIEF EXECUTIVES OF MAJOR COMMERCIAL BANKS MAY 8, RBI GOVERNOR S. JAGANNATHAN ADDRESSED A LETTER TO BANKS ENUNCIATING CREDIT POLICY OBJECTIVES AND MEASURES, WITH PARTICULAR REFERENCE TO THE TRADITIONAL SLACK SEASON MAY THROUGH OCTOBER BUT ALSO KEEPING THE NEXT BUSY SEASON (NOVEMBER THROUGH APRIL) IN VIEW.

RBI GOVERNOR STATES INFLATIONARY POTENTIAL IN ECONOMY IS STILL CONSIDERABLE DESPITE RECENT BREAK IN PRICES WHICH AMELIORATED INFLATIONARY PSYCHOLOGY.

3. CONTROL OF INFLATION WILL THEREFORE CONTINUE AS A BASIC OBJECTIVE, BUT THE NEEDS OF SOME SECTORS WHICH FACE SPECIAL DIFFICULTIES WILL BE EXAMINED WITH REFERENCE TO THE EXTENT TO WHICH CREDIT COULD ASSIST IN A SOLUTION OF THEIR PROBLEMS. IN SOME INDUSTRIES THERE HAS BEEN ACCUMULATION OF FINISHED GOODS, BUT WHERE SUCH DEVELOPMENTS ARE ASSOCIATED WITH SLACKENING INTERNAL DEMAND, CONSUMER RESISTANCE AND FALL IN EXPORT DEMAND, THE RBI CONSIDERS THAT PROVISION OF LARGER BANK CREDIT BY ITSELF WILL NOT BE A SOLUTION. THE SITUATION IN SUCH INDUSTRIES CALLS FOR QUICK ADAPTATION TO NEW MARKET CONDITIONS, REDUCTION IN COSTS AND OTHER REMEDIES NOT RELATED TO CREDIT.

4. THE GOVERNOR EMPHASISES THAT CREDIT EXPANSION SHOULD BE LIMITED TO THE BANK'S OWN AVAILABLE RESOURCES AFTER PROVIDING FOR THEIR STATUTORY CASH AND RESERVE REQUIREMENTS. IN THE CIRCUMSTANCES, BANK CREDIT WILL HAVE TO BE SELECTIVE, AIMED AT SUSTAINING INVESTMENT AND ASSISTING PRODUCTION IN CORE SECTORS AND OTHER ESSENTIAL LINES AS WELL AS MASS CONSUMPTION GOODS AND EXPORTS.

5. RBI HAS DECIDED THAT THERE IS NO CASE AT THIS STAGE FOR A DOWNWARD ADJUSTMENT OF INTEREST RATES FOR ADVANCES. THERE

UNCLASSIFIED

PAGE 03 NEW DE 06355 131121Z

IS ALSO AN IMPLICIT DECISION TO MAINTAIN THE PREVAILING STRUCTURE OF DEPOSIT INTEREST RATES DESIGNED TO BOOST DEPOSIT MOBILIZATION.

6. RBI GOVERNOR'S LETTER INDICATES SATISFACTION WITH RECENT CREDIT TRENDS AS IN LINE WITH CREDIT POLICY. OVER THE YEAR ENDED APRIL 1975 BANKS MAINTAINED A CREDIT DEPOSIT RATIO OF 62.8 PERCENT ON INCREASED DEPOSITS, WHILE THE OVERALL CREDIT

DEPOSIT RATIO AT THE END OF APRIL 1975 STOOD AT 72.2 PERCENT, A MARGINAL DROP FROM 73.7 PERCENT AT THE END OF APRIL 1974. THE DROP IN CREDIT-DEPOSIT RATIO, EXCLUDING FOOD PROCUREMENT, WAS LARGER, FROM 69.6 PERCENT AT END OF APRIL 1974 TO 67.4 PERCENT AT END OF APRIL 1975. GROSS BANK CREDIT, EXCLUDING THAT FOR PUBLIC FOOD PROCUREMENT, INCREASED ONLY BY RS.6,750 MILLION (8.9 PERCENT) COMPARED WITH RS.11,670 MILLION (18.5 PERCENT) IN THE 1973-74 BUSY SEASON.

7. DEALING WITH SPECIFIC MEASURES OF CREDIT CONTROL,
THE RBI GOVERNOR STATES:

(1) THERE IS NO CHANGE IN THE STATUTORY CASH AND RESERVE REQUIREMENT OF BANKS, WHICH REMAINS AT 37 PERCENT OF DEPOSITS;

(2) THE NET LIQUIDITY RATIO OF BANKS, RELEVANT FOR RBI LENDING AT BANK RATE WILL CONTINUE TO BE 39 PERCENT. THE MAXIMUM RBI INTEREST RATE FOR ADDITIONAL REFINANCE WILL REMAIN AT 18 PERCENT.

(3) INLAND BILLS REISCOUNTED WITH THE RBI WILL BE SUBJECT TO A CEILING OF 10 PERCENT OF COMMERCIAL BANKS INLAND BILLS PURCHASED AND DISCOUNTED AS OF END OF SEPTEMBER 1974, FOR THE CURRENT SLACK SEASON. BANKS WHICH HAVE TAKEN ADDITIONAL ACCOMMODATION FROM THE RBI MUST NEGOTIATE WITH RBI FOR SPECIAL DISCRETIONARY ACCOMMODATION.

(4) BASIC REFINANCE FACILITY FROM THE RBI WILL REMAIN LIMITED TO 1 PERCENT OF DEMAND AND TIME LIABILITIES AS OF END SEPTEMBER, 1974, SUBJECT TO THE PROVISIO THAT BANKS MAY HAVE RECOURSE TO SUCH REFINANCE ONLY IN THE EVENT OF UNAVOIDABLE AND TEMPORARY OPERATIONAL NEEDS.
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 NEW DE 06355 131121Z

(5) THE BASE PERIOD FOR DETERMINING QUOTA FOR REFINANCE AND REISCOUNTING OF BILLS WILL BE ALTERED AT THE END OF THE CURRENT SLACK SEASON.

(6) REGARDING FOOD PROCUREMENT CREDIT, BANKS ARE GIVEN REFINANCE EQUAL TO 50 PERCENT OF INCREASE IN OUTSTANDING FOOD CREDIT BETWEEN RS.3000 MILLION AND RS.4500 MILLION, AND FULL REFINANCE WITH RESPECT TO CREDIT BEYOND RS.4500 MILLION. BANKS ARE WARNED THAT THIS REFINANCE FACILITY WILL BE REVIEWED AND LOWERED IN OCTOBER 1975.

(7) BANKS SHOULD PLAN UTILIZATION OF THEIR RESOURCES SO AS TO ENSURE THAT CREDIT EXPANSION IN 1975-76 (MAY THROUGH APRIL) IS NO MORE THAN ABOUT 63 OR 64 PERCENT OF

THEIR DEPOSIT ACCRETION DURING THE PERIOD.

(8 ON PR-SHIPMENT EXPORT CREDIT, THE BASIC CONCESSIONAL RATE OF INTEREST CHARGEABLE BY BANKS WILL REMAIN AT 11.5 PERCENT, BUT THE PERIOD COVERED BY THE CREDIT WILL BE EXTENDED IN SPECIFIC CASES.

(9) AT PRESENT ONLY A FEW BANKS ARE INVOLVED IN FINANCING FERTILIZER DISTRIBUTION, BUT MORE BANKS ARE REQUIRED TO PARTICIPATE IN CREDIT FOR THIS HIGH PRIORITY SECTOR.

(10) COMMERCIAL BANKS MUST STEP UP THEIR TERM LENDING FOR PROJECTS OF HIGH PRIORITY. BANE
UNQTESAXBE

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT, BANKS, ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NEWDE06355
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750168-0115
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750557/aaaabzvq.tel
Line Count: 183
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 BOMBAY 2600, 75 NOVEMBER 1, 75 1974
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 17 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 JUL 2003 by maginmm>; APPROVED <13 FEB 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: T: RESERVE BANK OF INDIA'S CREDIT POLICY FOR 1975 SLACK SEASON (MAY THROUGH OCTOBER)
TAGS: EFIN, IN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006